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2008 INTERNAL CONTROL REPORT 90 DAY FOLLOW-UP

On August 4, 2009, the Legislative Services Office released the fiscal year 2008 statewide Internal Control Report. There were seven findings and recommendations pertaining to three agencies. These agencies, Office of the State Controller, including the Division of Statewide Payroll; the Idaho Department of Health and Welfare; and the Office of the State Treasurer were contacted in November 2009, and this report addresses how each has responded to its findings and recommendations contained in that report.

CONTROLLER, OFFICE OF THE STATE

FINDING 08S-1

Internal control weaknesses exist in the process for preparing the *Comprehensive Annual Financial Report (CAFR)*.

RECOMMENDATION 08S-1

We recommended that the State Controller's Office review the internal controls over the preparation of the *CAFR* and strengthen the processes as appropriate. This review should include processes for ensuring the accuracy of the financial statements and note disclosures.

AUDIT FOLLOW-UP

The State Controller's Office implemented several new procedures and revised current procedures, all designed to strengthen internal controls over the preparation of the *CAFR*.

STATUS – CLOSED

FINDING 08S-2

The authority to originate and approve payroll transactions is not properly segregated.

RECOMMENDATION

We recommended that the Division of Statewide Payroll require agencies to segregate the authority to originate and approve payroll transactions in the IPOPS and I-TIME systems of those remaining individuals.

AUDIT FOLLOW-UP

Immediately upon notification of the issue, the Division of Statewide Payroll contacted the applicable agencies, requiring them to segregate the authority to originate and approve personnel and payroll transactions. All agencies complied. There are no longer employees with the authority to originate and approve personnel and payroll transactions in I-POPS and I-Time.

STATUS – CLOSED

HEALTH AND WELFARE, IDAHO DEPARTMENT OF

FINDING 08S-3

Estimates used to calculate Medicaid payables are not adjusted for changes in processes or fully documented.

RECOMMENDATION 08S-3

We recommended that the Department review and document all estimates used to calculate the amount of Medicaid costs payable reported to the State Controller's Office.

AUDIT FOLLOW-UP

The Department continues to refine the process for computing the estimate by comparing the estimated Medicaid accounts payable with the actual amount for fiscal year 2008 and re-computing the estimated accounts payable for fiscal years 2005, 2006, and 2007 for comparative purposes.

The Department is in the process of documenting the method of computing the estimate.

STATUS – OPEN

FINDING 08S-4

Monitoring and other control efforts over P-Cards are not consistently enforced.

RECOMMENDATION 08S-4

We recommended that the Department strengthen monitoring and other control efforts over P-Card transactions by properly assigning second-level approvals for all users and notifying staff to avoid paying sales tax as specified by Idaho Code.

AUDIT FOLLOW-UP

The Department has changed the approval structure for many cardholders to ensure that the second level approver assigned is "a designate supervisor or manager in the cardholder's divisional line of authority...with direct knowledge of the cardholder's assigned work activities," as required by policy. The Department also created a separate group for executive management cardholders and assigned the executive assistant to the director as the second level approver for this group, and provided additional training to all cardholders.

The Department will continue to make every effort to avoid paying sales tax, reminding staff that Departmental transactions are exempt from sales tax under Idaho Code and, when practicable, requesting refunds when a vendor mistakenly charges the Department sales tax.

STATUS – CLOSED

FINDING 08S-5

Over \$12,000 was paid for unallowable employee meals and refreshments.

RECOMMENDATION 08S-5

We recommended that the Department comply with State travel policies and Department employee recognition event policies and monitor meal and refreshment costs to ensure that amounts are appropriate and allowable. We further recommended that any future expenditures of this nature be submitted to the State Board of Examiners for approval prior to payment.

AUDIT FOLLOW-UP

The Department continues to assert that the amounts charged were reasonable expenses and would like to continue to express its appreciation to employees. However, given the lack of guidance regarding Public Employee Recognition Week events, the Department will seek the approval of the Board of Examiners should such events occur in the future.

Additionally, the Department reviewed some transactions that included documentation of attendees and a calculation of allowable costs which provided greater assurance that expenditures of this nature met State and Departmental guidelines.

STATUS – CLOSED

TREASURER, OFFICE OF THE STATE

FINDING 08S-6

The process for selecting a contract investment management firm was not documented.

RECOMMENDATION 08S-6

We recommended that the State Treasurer's Office retain documentation that shows that the selection process resulted in the Office receiving the most favorable terms, conditions, and price for services. We also recommended that the State Treasurer's Office reevaluate the investment management contract in question to determine whether or not to continue, amend, or cancel this contract.

AUDIT FOLLOW-UP

The Office was in general agreement with the finding. The investment management contract in question was cancelled during fiscal year 2009. The Office plans to retain adequate documentation for the selection of contractors in the future.

STATUS – CLOSED

FINDING 08S-7

A \$26.6 million variance exists between the Idle Pool Investment Account and individual agency cash balances that is not fully identified.

RECOMMENDATION 08S-7

We recommended that the State Treasurer's Office perform additional analysis to identify the details of the variance between the individual agency cash balances and the actual cash balance in the Idle Pool Investment Account. We also recommended that the State Treasurer's Office implement internal controls to ensure that all transactions recorded to the Pool are properly initiated, supported, and reviewed.

AUDIT FOLLOW-UP

The Office has generally identified the variance as a combination of amortization entries, with the exception of an unexplained amount of \$197,000. The Office plans to implement an accounting system in the future that properly accounts for investments using cash and accrual-based methods.

STATUS – OPEN